

**REPORT OF THE AUDIT OF THE
KNOX COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2011**



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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable J.M. Hall, Knox County Judge/Executive
Members of the Knox County Fiscal Court

The enclosed report prepared by Percy and Gray, PSC, presents the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Knox County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements.

We engaged Percy and Gray, PSC, to perform the audit of these financial statements. We worked closely with the firm during our report review process; Percy and Gray, PSC, evaluated the Knox County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen".

Adam H. Edelen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE KNOX COUNTY FISCAL COURT

June 30, 2011

The Percy and Gray, PSC has completed the audit of the Knox County Fiscal Court for fiscal year ended June 30, 2011. The county has not recorded all general infrastructure assets in governmental activities, and accordingly, has not recorded depreciation expense on those assets. Therefore, we have issued a qualified opinion on the governmental activities, and an unqualified opinion on the business-type activities, each major fund, and the aggregate remaining fund information.

Financial Condition:

The fiscal court had total net assets of \$2,772,838 as of June 30, 2011. The fiscal court had unrestricted net assets of \$3,982,275 in its governmental activities as of June 30, 2011, with total net assets of \$2,664,044. In its business-type activities, total net cash and cash equivalents were \$108,794 with total net assets of \$108,794. The fiscal court had total debt principal as of June 30, 2011 of \$18,451,167 with \$739,833 due within the next year.

Report Comments:

- 2011-01 The Fiscal Court Should Have Re-Bid The Knox County Corbin Annex Project In Order For All Qualified Contractors To Have An Equal Chance Of Procuring The Contract
- 2011-02 The County Should Improve Internal Controls Over The Road Department
- 2011-03 The Treasurer Should Perform All Interfund Cash Transfers Approved Unless Prohibited By Law
- 2011-04 The County Should Not Use Restricted Funds For Purposes Non-Restricted
- 2011-05 The Fiscal Court Should Properly Advertise For Bids On All Expenditures Over \$20,000
- 2011-06 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically
- 2011-07 The County Did Not Follow Proper Purchase And Procurement Procedures
- 2011-08 The County Should Maintain Proper Records For The Public Properties Corporation Bond Fund And The Hospital General Obligation Refunding Bond Fund
- 2011-09 The County Should Comply And Ensure That The Same Level Of Health Insurance Benefits Are Provided To All County Employees As Stated In Kentucky Attorney General Opinion (OAG) 94-15
- 2011-10 The County Should Accurately Report Debt On The Quarterly Financial Statements
- 2011-11 The County Should Notify The State Local Debt Officer And Pay Off Short-Term Debt In Accordance With Kentucky Revised Statutes
- 2011-12 The County Lacks Adequate Segregation Of Duties Over Payroll Processes
- 2011-13 The Jailer Should Maintain Accurate Accounting Records And Prepare An Annual Report For The Jail Canteen Fund
- 2011-14 The Knox County Jail Lacks Adequate Segregation Of Duties Over Accounting Functions
- 2011-15 The Fiscal Court Should Provide Adequate Oversight For Fuel Purchases Made With Credit Cards
- 2011-16 Purchase Orders Should Be Properly Prepared And Approved Prior To Making Purchases
- 2011-17 Magistrates Should Not Receive A Lump Sum Expense Allowance
- 2011-18 The County Should Ensure That Financial Disclosures Statements Be Submitted To The Ethics Board As Required By The County's Code Of Ethics
- 2011-19 The Fiscal Court Should Require Monthly Payments To The Jail Fund For Inmate Fees
- 2011-20 All Jail Expenditures Should Be Budgeted
- 2011-21 The Jailer Should Collect Sales Tax On Prepaid Phone Cards Sold And Remit Collections To The Jail Canteen Fund

Deposits:

Fiscal Court's deposits were insured and collateralized by bank securities.

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PEEROY AND GRAY, PSC

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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable J.M. Hall, Knox County Judge/Executive

Members of the Knox County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Knox County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Knox County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Knox County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Knox County, Kentucky has not included assets of the Knox County Hospital owned by the county in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require all assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure affects the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, except for the effects of not including the assets referred to in the previous paragraph in governmental activities, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Knox County, Kentucky, as of June 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

To the People of Kentucky

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Members of the Knox County Fiscal Court

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of Knox County, Kentucky, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Knox County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 30, 2012 on our consideration of Knox County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2011-01 The Fiscal Court Should Have Re-Bid The Knox County Corbin Annex Project In Order For All Qualified Contractors To Have An Equal Chance Of Procuring The Contract
- 2011-02 The County Should Improve Internal Controls Over The Road Department
- 2011-03 The Treasurer Should Perform All Interfund Cash Transfers Approved Unless Prohibited By Law
- 2011-04 The County Should Not Use Restricted Funds For Purposes Non-Restricted
- 2011-05 The Fiscal Court Should Properly Advertise For Bids On All Expenditures Over \$20,000
- 2011-06 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically
- 2011-07 The County Did Not Follow Proper Purchase And Procurement Procedures
- 2011-08 The County Should Maintain Proper Records For The Public Properties Corporation Bond Fund And The Hospital General Obligation Refunding Bond Fund
- 2011-09 The County Should Comply And Ensure That The Same Level Of Health Insurance Benefits Are Provided To All County Employees As Stated In Kentucky Attorney General Opinion (OAG) 94-15
- 2011-10 The County Should Accurately Report Debt On The Quarterly Financial Statements
- 2011-11 The County Should Notify The State Local Debt Officer And Pay Off Short-Term Debt In Accordance With Kentucky Revised Statutes

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- 2011-12 The County Lacks Adequate Segregation Of Duties Over Payroll Processes
- 2011-13 The Jailer Should Maintain Accurate Accounting Records And Prepare An Annual Report For The Jail Canteen Fund
- 2011-14 The Knox County Jail Lacks Adequate Segregation Of Duties Over Accounting Functions
- 2011-15 The Fiscal Court Should Provide Adequate Oversight For Fuel Purchases Made With Credit Cards
- 2011-16 Purchase Orders Should Be Properly Prepared And Approved Prior To Making Purchases
- 2011-17 Magistrates Should Not Receive A Lump Sum Expense Allowance
- 2011-18 The County Should Ensure That Financial Disclosures Statements Be Submitted To The Ethics Board As Required By The County's Code Of Ethics
- 2011-19 The Fiscal Court Should Require Monthly Payments To The Jail Fund For Inmate Fees
- 2011-20 All Jail Expenditures Should Be Budgeted
- 2011-21 The Jailer Should Collect Sales Tax On Prepaid Phone Cards Sold And Remit Collections To The Jail Canteen Fund

Respectfully submitted,

A handwritten signature in black ink that reads "Peercy and Gray, PSC". The signature is written in a cursive, flowing style.

Peercy & Gray, PSC
Certified Public Accountants

March 30, 2012

KNOX COUNTY OFFICIALS

For The Year Ended June 30, 2011

Fiscal Court Members:

J.M. Hall	County Judge/Executive
Carson I. Gilbert	Magistrate
Terry Brown (Ending December 31, 2010)	Magistrate
Guillio J. Cima	Magistrate
Doyle Gibson (Ending December 31, 2010)	Magistrate
Jerry Hamilton (Ending December 31, 2010)	Magistrate
Keith Abner (Beginning January 1, 2010)	Magistrate
Jerry Cox (Beginning January 1, 2010)	Magistrate
Pat McDonald(Beginning January 1, 2010)	Magistrate

Other Elected Officials:

Charley G. Dixon	County Attorney
Mary Hammons	Jailer
Mike Corey	County Clerk
Greg Helton	Circuit Court Clerk
John Pickard	Sheriff
Bill Oxendine	Property Valuation Administrator
Mike Blevins	Coroner

Appointed Personnel:

Jim Tye	Deputy County Judge/Executive
Darren West (Ending June 30, 2011)	County Treasurer
Jack Ketchum (Beginning July 1, 2011)	County Treasurer
Wayne Willis	Occupational Tax Collector
Tammy Peters	Finance Officer

KNOX COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

KNOX COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 4,214,691	\$ 108,794	\$ 4,323,485
Asset Held For Resale	233,200		233,200
Total Current Assets	4,447,891	108,794	4,556,685
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	1,634,145		1,634,145
Buildings	5,696,102		5,696,102
Other Equipment	933,715		933,715
Vehicles and Equipment	504,820		504,820
Infrastructure	7,898,538		7,898,538
Total Noncurrent Assets	16,667,320		16,667,320
Total Assets	21,115,211	108,794	21,224,005
LIABILITIES			
Current Liabilities:			
Bonds Payable	280,000		280,000
Revenue Bonds	130,000		130,000
Financing Obligations Payable	29,833		29,833
Notes Payable	300,000		300,000
Total Current Liabilities	739,833		739,833
Noncurrent Liabilities:			
Bonds Payable	15,950,000		15,950,000
Revenue Bonds	1,505,000		1,505,000
Financing Obligations Payable	256,334		256,334
Total Noncurrent Liabilities	17,711,334		17,711,334
Total Liabilities	18,451,167		18,451,167
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	(1,483,847)		(1,483,847)
Restricted For:			
Debt Service	165,616		165,616
Protection to Persons and Property		33,017	33,017
Unrestricted	3,982,275	75,777	4,058,052
Total Net Assets	\$ 2,664,044	\$ 108,794	\$ 2,772,838

The accompanying notes are an integral part of the financial statements.

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KNOX COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011

KNOX COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 3,321,062	\$ 7,804	\$ 1,125,718	\$
Protection to Persons and Property	2,262,995	267,896	214,546	
General Health and Sanitation	204,205		190,000	
Social Services	77,606			
Recreation and Culture	18,338			
Roads	1,521,140		1,871,265	81,990
Interest on Long-term Debt	1,005,159			
Capital Projects	497,316			
Total Governmental Activities	8,907,821	275,700	3,401,529	81,990
Business-type Activities:				
Jail Canteen	65,699	46,870		
Total Business-type Activities	65,699	46,870		
Total Primary Government	\$ 8,973,520	\$ 322,570	\$ 3,401,529	\$ 81,990

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Delinquent Taxes
Franchise Taxes
Occupational Taxes
Deed Transfer Taxes
Other Taxes

Excess Fees

Miscellaneous Revenues

Interest

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (2,187,540)	\$	\$ (2,187,540)
(1,780,553)		(1,780,553)
(14,205)		(14,205)
(77,606)		(77,606)
(18,338)		(18,338)
432,115		432,115
(1,005,159)		(1,005,159)
(497,316)		(497,316)
(5,148,602)		(5,148,602)
	(18,829)	(18,829)
	(18,829)	(18,829)
(5,148,602)	(18,829)	(5,167,431)
966,378		966,378
171,941		171,941
88,430		88,430
211,056		211,056
2,834,594		2,834,594
33,868		33,868
346,345		346,345
505,134		505,134
451,223	52,579	503,802
53,968		53,968
5,662,937	52,579	5,715,516
514,335	33,750	548,085
2,149,709	75,044	2,224,753
\$ 2,664,044	\$ 108,794	\$ 2,772,838

The accompanying notes are an integral part of the financial statements.

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KNOX COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

KNOX COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

	General Fund	Road Fund	Local Government Economic Assistance and Development Fund	Knox County Hospital General Obligation Refunding Bond Fund
ASSETS				
Cash and Cash Equivalents	\$ 2,666,437	\$ 923,116	\$ 360,824	\$ 159,063
Due From Other Funds				
Total Assets	<u>2,666,437</u>	<u>923,116</u>	<u>360,824</u>	<u>159,063</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Due To Other Funds	<u>79,824</u>			
Total Liabilities	<u>79,824</u>			
FUND BALANCES				
Restricted:				
Debt Service				159,063
Assigned:				
Protection to Persons and Property	687,205			
General Health and Sanitation				
Recreation and Culture	180,394			
Roads		923,116	360,824	
Unassigned	<u>1,798,838</u>			
Total Fund Balances	<u>\$ 2,666,437</u>	<u>\$ 923,116</u>	<u>\$ 360,824</u>	<u>\$ 159,063</u>
Total Liabilities and Fund Balances	<u>\$ 2,746,261</u>	<u>\$ 923,116</u>	<u>\$ 360,824</u>	<u>\$ 159,063</u>

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2011
(Continued)

Non- Major Funds	Total Governmental Funds
\$ 25,427	\$ 4,134,867
79,824	79,824
<u>105,251</u>	<u>4,214,691</u>
	79,824
	<u>79,824</u>
6,553	165,616
18,874	706,079
79,824	79,824
	180,394
	1,283,940
	<u>1,798,838</u>
<u>\$ 105,251</u>	<u>\$ 4,214,691</u>
<u>\$ 105,251</u>	<u>\$ 4,294,515</u>

Total Fund Balances	\$ 4,214,691
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	23,374,904
Accumulated Depreciation	(6,707,584)
Asset Held For Resale	233,200
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
General Obligation Bonds	(16,230,000)
Revenue Bonds	(1,635,000)
Financing Obligations	(286,167)
Notes Payable	<u>(300,000)</u>
Net Assets Of Governmental Activities	<u>\$ 2,664,044</u>

The accompanying notes are an integral part of the financial statements.

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KNOX COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

KNOX COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	General Fund	Road Fund	Local Government Economic Assistance and Development Fund
REVENUES			
Taxes	\$ 4,363,256	\$	\$
Excess Fees	505,135		
Licenses and Permits	136,194		
Intergovernmental	410,018	1,400,302	1,403,689
Charges for Services	9,181		
Miscellaneous	168,866	281,809	
Interest	36,882	5,467	10,965
Total Revenues	<u>5,629,532</u>	<u>1,687,578</u>	<u>1,414,654</u>
EXPENDITURES			
Current:			
General Government	2,431,228		
Protection to Persons and Property	1,941,240		
General Health and Sanitation	160,642		1,750
Social Services			
Recreation and Culture	15,966		
Roads		3,142,007	98,499
Debt Service	96,644		69,863
Capital Projects			396,696
Administration	810,824	291,724	
Total Expenditures	<u>5,456,544</u>	<u>3,433,731</u>	<u>566,808</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>172,988</u>	<u>(1,746,153)</u>	<u>847,846</u>
Other Financing Sources (Uses)			
Transfers From Other Funds		2,350,000	
Transfers To Other Funds	(850,620)		(1,500,000)
Total Other Financing Sources (Uses)	<u>(850,620)</u>	<u>2,350,000</u>	<u>(1,500,000)</u>
Net Change in Fund Balances	(677,632)	603,847	(652,154)
Fund Balances - Beginning (Restated)	3,344,069	319,269	1,012,978
Fund Balances - Ending	<u>\$ 2,666,437</u>	<u>\$ 923,116</u>	<u>\$ 360,824</u>

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Knox County Hospital General Obligation Refunding Bond Fund	Non- Major Funds	Total Governmental Funds
\$	\$ 258,716	\$ 4,621,972
		505,135
		136,194
190,000	215,478	3,619,487
		9,181
	25,545	476,220
	653	53,967
<u>190,000</u>	<u>500,392</u>	<u>9,422,156</u>
		2,431,228
	283,822	2,225,062
	1,184	163,576
	77,606	77,606
		15,966
		3,240,506
1,153,361	43,345	1,363,213
	100,620	497,316
	59,854	1,162,402
<u>1,153,361</u>	<u>566,431</u>	<u>11,176,875</u>
<u>(963,361)</u>	<u>(66,039)</u>	<u>(1,754,719)</u>
	620	2,350,620
		<u>(2,350,620)</u>
	<u>620</u>	
(963,361)	(65,419)	(1,754,719)
1,122,424	170,670	5,969,410
<u>\$ 159,063</u>	<u>\$ 105,251</u>	<u>\$ 4,214,691</u>

The accompanying notes are an integral part of the financial statements.

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**KNOX COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2011

KNOX COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ (1,754,719)
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	2,811,596
Asset Held For Resale	233,200
Depreciation Expense	(646,464)
Assets disposed of, net book value	(487,332)

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

General Obligation Bond Principal Payments	270,000
Financing Obligation Principal Payments	88,054

Change in Net Assets of Governmental Activities	<u><u>\$ 514,335</u></u>
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KNOX COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

KNOX COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 108,794
Total Current Assets	<u>108,794</u>
Net Assets	
Restricted For:	
Protection to Persons and Property	33,017
Unrestricted	<u>75,777</u>
Total Net Assets	<u><u>\$ 108,794</u></u>

The accompanying notes are an integral part of the financial statements.

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KNOX COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

KNOX COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 46,870
Total Operating Revenues	<u>46,870</u>
Operating Expenses	
Cost of Sales	29,880
Educational and Recreational	772
Jail Maintenance and Supplies	33,236
Sales Tax	<u>1,811</u>
Total Operating Expenses	<u>65,699</u>
Operating Income (Loss)	<u>(18,829)</u>
Nonoperating Revenues (Expenses)	
Medical Fees Collected	1,345
Phone Card Sales	6,760
Received on Inmate accounts	54,207
Booking Fees Collected	62,849
Inmate Refunds	(67,881)
Payments to Fiscal Court	<u>(4,701)</u>
Total Nonoperating Revenues (Expenses)	<u>52,579</u>
Change In Net Assets	33,750
Total Net Assets - Beginning	<u>75,044</u>
Total Net Assets - Ending	<u><u>\$ 108,794</u></u>

The accompanying notes are an integral part of the financial statements.

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KNOX COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

KNOX COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Cash Receipts From Customers	\$ 46,870
Cash Payments To Vendors	(65,699)
Net Cash Provided (Used) By Operating Activities	(18,829)
Cash Flows From Noncapital Financing Activities	
Cash Receipts For Medical Fees	1,345
Cash Receipts For Phone Cards	6,760
Cash Receipts For Inmate Accounts	54,207
Cash Receipts For Booking Fees	62,849
Cash Payments For Inmate Refunds on Accounts	(67,881)
Cash Payments To Fiscal Court	(4,701)
Net Cash Provided By Noncapital Financing Activities	52,579
Net Increase (Decrease) in Cash and Cash Equivalents	33,750
Cash and Cash Equivalents - July 1, 2010	75,044
Cash and Cash Equivalents - June 30, 2010	\$ 108,794

The accompanying notes are an integral part of the financial statements.

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KNOX COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

KNOX COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	<u>Agency Fund</u>
	<u>Jail Inmate Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 6,534
Total Assets	<u>6,534</u>
Liabilities	
Amounts Held In Custody For Others	<u>6,534</u>
Total Liabilities	<u>6,534</u>
Total Net Assets	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

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KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Knox County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The County has no discretely presented component units.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Knox County Public Properties Corporation

The Knox County Fiscal Court appoints a voting majority of the Knox County Public Properties Corporation's (PPC) governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the PPC. Financial information for the PPC is blended within Knox County's financial statements. All activities of the PPC are accounted for within a governmental fund.

Knox County Hospital Corporation

The Knox County Fiscal Court appoints all members of the governing board of the Knox County Hospital Corporation. The fiscal court, through the Knox County Hospital Corporation, owns the building and assets of the hospital and incurs debt on its behalf. The corporation is presented as a debt service fund in the financial statements.

C. Knox County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Knox County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Knox County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance and Development Fund - The primary purpose of this fund is to account for funds that must be spent for public safety, environmental protection, public transportation, health, recreation, and social services. The Department for Local Government requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Knox County Hospital General Obligation Refunding Bond Fund - The primary purpose of this fund is to account for debt service requirements of the obligation bonds of the Knox County Hospital. The bonds were issued to build the new hospital. The Department for Local Government does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Emergency 911 Fund, Federal Programs Fund, County Attorney Drug Free Communities Fund, the Union College Construction Fund, and the Public Properties Corporation Fund.

Special Revenue Funds:

The Road Fund, Local Government Economic Assistance and Development Fund, Emergency 911 Fund, Federal Programs Fund, County Attorney Drug Free Communities Fund, and the Union College Construction Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Knox County Hospital General Obligation Refunding Bond Fund and the Knox County Public Properties Corporation Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds (Continued)

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Utility Tax Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Inmate Fund - This fund accounts for funds received from jail inmates and remitted for jail canteen expenses, booking fees, or returned to jail inmates.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-10
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into nonspendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

Spendable include the following:

- Restricted – amounts constrained for a specific purpose by external parties, constitutional provisions or enabling legislation.
- Committed – amounts constrained for a specific purpose by the county using its highest level of decision-making authority.
- Assigned – for all governmental funds, other than general fund, any remaining positive amounts not classified as non – spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specific purpose by the county or the delegated county committee or official given authority to assign amounts.
- Unassigned – for general fund, amounts not classified as non-spendable, restricted, committed, or assigned. For all other government funds, amount expended in excess of resources that are non-spendable, restricted, committed, or assigned.

For resources considered committed, the county issues an ordinance that can only be changed with another corresponding ordinance or resolution.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

For resources considered assigned, the county has designated the County Treasurer to carry out the intent of the fiscal court.

It is the policy of the county to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted funds are exhausted then committed, assigned unassigned resources are spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with commitments and contingencies not disclosure, if applicable.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Knox County Hospital General Obligation Refunding Bond Fund and the Knox County Public Properties Fund. The Department for Local Government does not require these funds to be budgeted.

J. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Knox County Utility Commission and the Knox County Ambulance Service are considered related organizations of Knox County Fiscal Court.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Interfund Transfers In/Out

	General Fund	Local Government Economic Assistance and Development Fund	Total Transfers In
General Fund	\$	\$	\$
Road Fund	850,000	1,500,000	2,350,000
Union College Construction Fund	620		620
Total Transfers Out	<u>850,620</u>	<u>1,500,000</u>	<u>2,350,620</u>

Reasons for Transfers:

1. To move resources from the General Fund and other funds, for budgetary purposes, to the fund that will expend them.
2. To return unused resources, for budgetary purposes, to the General Fund.

Note 4. Short-Term Investment

On June 21, 2011, the County purchased two Mac trucks from World Wide Equipment to use for a period of time. The trucks will then be auctioned off and the monies will be used to purchase two more trucks and continuing the cycle. As of June 30, 2011, the amount invested was \$233,200.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,459,145	\$ 175,000	\$	\$ 1,634,145
Construction In Progress	487,332		(487,332)	
Total Capital Assets Not Being Depreciated	1,946,477	175,000	(487,332)	1,634,145
Capital Assets, Being Depreciated:				
Buildings	9,132,482	494,973		9,627,455
Other Equipment	1,796,111	145,310		1,941,421
Vehicles and Equipment	1,140,750	28,411		1,169,161
Infrastructure	7,034,820	1,967,902		9,002,722
Total Capital Assets Being Depreciated	19,104,163	2,636,596		21,740,759
Less Accumulated Depreciation For:				
Buildings	(3,812,182)	(119,171)		(3,931,353)
Other Equipment	(888,239)	(119,466)		(1,007,705)
Vehicles and Equipment	(565,340)	(99,001)		(664,341)
Infrastructure	(795,359)	(308,826)		(1,104,185)
Total Accumulated Depreciation	(6,061,120)	(646,464)		(6,707,584)
Total Capital Assets, Being Depreciated, Net	13,043,043	1,990,132		15,033,175
Government Activities Capital Assets, Net	\$ 14,989,520	\$ 2,165,132	\$ (487,332)	\$ 16,667,320

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 171,684
Protection To Persons and Property	37,933
General Health and Sanitation	40,629
Recreation and Culture	2,372
Roads	393,846
Total Depreciation Expense - Governmental Activities	\$ 646,464

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 6. Short-term Debt

On April 14, 2011, the Knox County Fiscal Court entered into a commercial promissory note with Commercial Bank for operating costs of the Knox County Hospital. The note is a revolving line of credit up to \$300,000 at an interest rate of 7% and was to mature on June 30, 2011. The note was renewed on June 30, 2011 and will mature on June 30, 2011. The hospital management team, Pacer Health Management Corporation of Kentucky signed as grantor of the note and is financially liable for the note.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bank Note	\$ 180,000	\$ 120,000	\$	\$ 300,000	\$ 300,000
Short-term Liabilities	<u>\$ 180,000</u>	<u>\$ 120,000</u>	<u>\$ 0</u>	<u>\$ 300,000</u>	<u>\$ 300,000</u>

Note 7. Long-term Debt

A. First Mortgage Revenue Refunding Bonds, Series 2011

On February 17, 2010, the Knox County Public Properties Corporation issued \$1,635,000 of First Mortgage Refunding Revenue Bonds to pay off the 1997 Series Bonds which were originally issued for courthouse improvements and the construction of the courthouse annex. The 2011 series bonds were issued at various interest rates from 1% through 3.625%. The final maturity date of the 2011 series bonds is September 1, 2021. Total bonds outstanding as of June 30, 2011 totaled \$1,635,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2012	\$ 130,000	\$ 41,073
2013	135,000	39,613
2014	135,000	37,790
2015	140,000	35,448
2016	145,000	32,486
2017-2021	780,000	97,588
2022	<u>170,000</u>	<u>3,081</u>
	<u>\$ 1,635,000</u>	<u>\$ 287,079</u>

B. Taxable General Obligation Refunding Bonds, Series 2006

The Fiscal Court issued obligations, dated December 28, 2006 and payable in 28 annual installments beginning December 1, 2009 and semi-annual interest payments on the first of June and December at an interest rate of 4.90%.

The Fiscal Court issued the Bonds, Series 2006 to defease and refund the General Obligation Bonds, Series 2004 due June 1, 2007 through 2014, General Obligation Bonds, Series 2004B due June 1, 2007 through 2015, a portion of the General Obligation Bonds, Series 2005 due June 1, 2007 through 2015; and to pay off a KADD lease. All of the instruments related to the Knox County Hospital. The refunding of the bonds has been

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 7. Long-term Debt (Continued)

B. Taxable General Obligation Refunding Bonds, Series 2006 (Continued)

accomplished pursuant to the Escrow Agreement by and between the County and Huntington Bank (successor to Central Bank & Trust Co.), the paying agent for the bonds (the “Escrow Agent”) by depositing with the Escrow Agent a sum of initial cash and certain noncallable direct obligations of the United States Treasury (collectively, the “Government Obligations”). The funds needed to make the initial cash deposit and to purchase the Government Obligations have been provided from the proceeds of the Bonds, Series 2006.

The Government Obligations purchased and deposited with the Escrow Agent bear interest at such rates and will be scheduled to mature at such times and in such amounts so that, when paid according to their respective terms, sufficient moneys together with any amounts of cash then on deposit with the Escrow Agent, will be available to fully provide for: (i) the timely payment of interest on the bonds accruing from December 28, 2006 to and including the earliest date on which such bonds can be redeemed prior to maturity; and (ii) to redeem on December 1, 2014, December 1, 2015 and June 1, 2015, respectively, the bonds which as of that date have not been redeemed, retired or otherwise paid.

All moneys and Government Obligations on deposit with the Escrow Agent, including interest to be earned thereon, are pledged solely and irrevocably for the benefit of the holders of the Series 2004, Series 2004B and Series 2005 bonds. As of June 30, 2011, bonds outstanding were \$15,325,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2012	\$ 265,000	\$ 888,555
2013	280,000	872,886
2014	300,000	856,136
2015	315,000	838,301
2016	335,000	819,451
2017-2021	1,980,000	3,773,761
2022-2026	2,625,000	3,110,037
2027-2031	3,485,000	2,221,407
2032-2036	4,640,000	1,035,469
2037	1,100,000	32,313
	<u>\$ 15,325,000</u>	<u>\$ 14,448,316</u>

C. General Obligation Refunding Bonds, Series 2005 Non-Refunded Portion

On December 1, 2005, the Knox County Fiscal Court issued \$4,250,000 of General Obligation Refunding Bonds for the Knox County Hospital. On December 28, 2006, the Fiscal Court issued General Obligation Refunding Bonds, Series 2006 which defeased the remainder of the outstanding Series 2005 bonds at that date with the exception of \$985,000. The non-refunded portion of the Series 2005 Bonds has interest rates from 2.80% through 4.50%. The final maturity date of the Series 2005 Bonds is December 1, 2035. Total bonds outstanding as of June 30, 2011 totaled \$905,000. Future principal and interest requirements are:

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 7. Long-term Debt (Continued)

C. General Obligation Refunding Bonds, Series 2005 Non-Refunded Portion (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 15,000	\$ 38,796
2013	20,000	38,178
2014	20,000	37,448
2015	20,000	36,698
2016	20,000	35,938
2017-2021	130,000	165,643
2022-2026	180,000	131,624
2027-2031	220,000	88,700
2032-2036	280,000	32,401
	<u>\$ 905,000</u>	<u>\$ 605,426</u>

D. Jail – Long Term Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority (KLCFCA), an independent corporation agency and instrumentality of Kentucky, issued revenue bonds in the amount of \$276,310 on September 29, 2004 for the purpose of constructing a jail facility. On October 1, 2004, the fiscal court entered into a lease and participation agreement with KLCFCA for \$276,310 principal plus interest of 6.34% on the issue. The principal amount outstanding as of June 30, 2011 was \$131,167. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2012	\$ 29,833	\$ 7,370
2013	31,724	5,419
2014	33,736	3,344
2015	35,874	1,137
	<u>\$ 131,167</u>	<u>\$ 17,270</u>

E. Kentucky Area Development District – Vehicles

On September 1, 2005, the Fiscal Court entered into a capital lease agreement with Kentucky Area Development District for the purpose of purchasing vehicles. The principal of the lease was \$495,000 with repayment to be made over an eleven year period. The county is to pay semi-annual installments due in January and July in accordance with a schedule to complete the contract. The lease was issued at various interest rates from 3.40% through 4.50%. The principal amount outstanding as of June 30, 2011 was \$155,000. Future principal and interest requirements are:

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 7. Long-term Debt (Continued)

E. Kentucky Area Development District – Vehicles (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2012	\$	\$ 8,588
2013	65,000	5,931
2014	30,000	3,875
2015	30,000	2,525
2016	30,000	925
	<u>\$ 155,000</u>	<u>\$ 21,844</u>

F. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 16,500,000	\$	\$ 270,000	\$16,230,000	\$ 280,000
Revenue Bonds	1,635,000			1,635,000	130,000
Financing Obligations	374,221		88,054	286,167	29,833
Governmental Activities					
Long-term Liabilities	<u>\$ 18,509,221</u>	<u>\$ 0</u>	<u>\$ 358,054</u>	<u>\$18,151,167</u>	<u>\$ 439,833</u>

Note 8. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 8. Employee Retirement System (Continued)

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 33.25 percent.

The county's contribution for FY 2009 was \$198,007, FY 2010 was \$249,924, and FY 2011 was \$331,711.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides postretirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 9. Deferred Compensation

The Knox County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 9. Deferred Compensation (Continued)

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 10. Insurance

For the fiscal year ended June 30, 2011, Knox County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Prior Period Adjustments

The prior year Road Fund cash balance was increased by \$549 to account for a voided check. This adjustment resulted in a beginning Road Fund balance of \$319,269. The prior year net asset balance for governmental activities, business-type activities, and fund cash balances have been restated as follows:

Prior Year Net Assets Audited Ending Balance	2,355,496
Add: Corrections to the Capital Asset Schedule	93,663
Less: Debt Not Included In Prior Year	(300,000)
Add: Prior Year Voided Road Fund Check	549
Add: Rounding	<u>1</u>
July 1, 2010 Beginning Balance	<u><u>2,149,709</u></u>

Note 12. Related Party Transaction

In the year ended June 30, 2011, the County purchased a parcel of land from the County Attorney in the amount of \$175,000. In addition, the Knox County Fiscal Court paid a total of \$214,649 to McVey Land Development for various road maintenance supplies, labor, and equipment rental. The County Judge/Executive's uncle owns McVey Land Development. The County's code of ethics states "no county officer, county employee, or immediate family member of the officer or employee, shall have an interest in a business, or engage in any business transaction, or activity, which is in substantial conflict with the proper discharge of the public duties of the officer or employee." It further defines "immediate family member" as spouse, child, or person claimed as a dependent for tax purposes. Based upon the County's Code of Ethics, neither of these transactions mentioned above are considered conflicts and are not in violation of the County's code of ethics.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 13. Change in Accounting Principles

The Knox County Fiscal Court implemented a new accounting standard, Governmental Accounting Standards Board (GASB) Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions which has altered the classifications of fund balance on the Balance Sheet – Governmental Funds. Additionally, the Jail Fund, Occupational Tax Fund, Hospital Sinking Fund, and the Park Fund previously reported separately no longer meet the definition of a special revenue fund and have been included in the General Fund. See the Notes To Required Supplementary Information for further detail.

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2011

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,498,500	\$ 1,618,500	\$ 1,528,977	\$ (89,523)
Excess Fees	412,032	412,032	505,135	93,103
Licenses and Permits	136,000	136,000	136,194	194
Intergovernmental Revenue	297,500	312,500	292,604	(19,896)
Charges for Services	600	600	3,030	2,430
Miscellaneous	41,100	41,100	138,013	96,913
Interest	60,000	60,000	28,477	(31,523)
Total Revenues	<u>2,445,732</u>	<u>2,580,732</u>	<u>2,632,430</u>	<u>51,698</u>
EXPENDITURES				
General Government	1,412,900	1,711,122	1,433,261	277,861
Protection to Persons and Property	35,500	35,500	5,623	29,877
General Health and Sanitation	189,500	203,500	160,642	42,858
Social Services	12,000	12,000		12,000
Recreation and Culture	15,000	20,100	15,966	4,134
Debt Service	120,000	120,000		120,000
Administration	1,440,782	1,837,654	564,816	1,272,838
Total Expenditures	<u>3,225,682</u>	<u>3,939,876</u>	<u>2,180,308</u>	<u>1,759,568</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(779,950)</u>	<u>(1,359,144)</u>	<u>452,122</u>	<u>1,811,266</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	1,140,000	1,140,000	2,036,181	896,181
Transfers To Other Funds	<u>(2,560,050)</u>	<u>(2,660,050)</u>	<u>(3,591,944)</u>	<u>(931,894)</u>
Total Other Financing Sources (Uses)	<u>(1,420,050)</u>	<u>(1,520,050)</u>	<u>(1,555,763)</u>	<u>(35,713)</u>
Net Changes in Fund Balance	(2,200,000)	(2,879,194)	(1,103,641)	1,775,553
Fund Balance - Beginning	<u>2,200,000</u>	<u>2,879,194</u>	<u>2,879,194</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,775,553</u>	<u>\$ 1,775,553</u>

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,430,029	\$ 1,430,029	\$ 1,400,302	\$ (29,727)
Miscellaneous	11,000	11,000	281,809	270,809
Interest	16,000	16,000	5,467	(10,533)
Total Revenues	<u>1,457,029</u>	<u>1,457,029</u>	<u>1,687,578</u>	<u>230,549</u>
EXPENDITURES				
Roads	2,672,000	3,307,400	3,142,007	165,393
Administration	1,549,129	1,032,449	291,724	740,725
Total Expenditures	<u>4,221,129</u>	<u>4,339,849</u>	<u>3,433,731</u>	<u>906,118</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(2,764,100)</u>	<u>(2,882,820)</u>	<u>(1,746,153)</u>	<u>1,136,667</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>2,564,100</u>	<u>2,564,100</u>	<u>2,350,000</u>	<u>(214,100)</u>
Total Other Financing Sources (Uses)	<u>2,564,100</u>	<u>2,564,100</u>	<u>2,350,000</u>	<u>(214,100)</u>
Net Changes in Fund Balance	(200,000)	(318,720)	603,847	922,567
Fund Balance - Beginning (Restated)	<u>200,000</u>	<u>318,720</u>	<u>319,269</u>	<u>549</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 923,116</u>	<u>\$ 923,116</u>

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	LGEA AND LGED FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 900,000	\$ 1,200,000	\$ 1,403,689	\$ 203,689
Interest	25,000	25,000	10,965	(14,035)
Total Revenues	925,000	1,225,000	1,414,654	189,654
EXPENDITURES				
General Health and Sanitation	1,000	3,000	1,750	1,250
Roads	95,000	193,500	98,499	95,001
Debt Service			69,863	(69,863)
Capital Projects	300,000	1,012,477	396,696	615,781
Total Expenditures	396,000	1,208,977	566,808	642,169
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	529,000	16,023	847,846	831,823
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(1,029,000)	(1,029,000)	(1,500,000)	(471,000)
Total Other Financing Sources (Uses)	(1,029,000)	(1,029,000)	(1,500,000)	(471,000)
Net Changes in Fund Balances	(500,000)	(1,012,977)	(652,154)	360,823
Fund Balances - Beginning	500,000	1,012,977	1,012,978	1
Fund Balances - Ending	\$ 0	\$ 0	\$ 360,824	\$ 360,824

KNOX COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of Required Supplementary Information to the Statement of Revenues, Expenditures, and Changes in Fund Balances

Following is a summary of adjustments that convert the cash basis budgetary schedules to the modified cash basis of accounting used in the Statement of Revenues, Expenditures, and Changes in Fund Balances:

General Fund

Total Revenues - Budgetary Basis	\$ 2,632,430
To Adjust For Jail Fund Receipts	155,759
To Adjust For Occupational Tax Fund Receipts	2,700,683
To Adjust For Park Fund Receipts	<u>140,660</u>
Total Revenues - Modified Cash Basis	<u><u>\$ 5,629,532</u></u>
Total Expenditures - Budgetary Basis	\$ 2,180,308
To Adjust For Jail Fund Expenditures	2,218,884
To Adjust For Occupational Tax Fund Expenditures	903,067
To Adjust For Hospital Sinking Fund Expenditures	59,384
To Adjust For Park Fund Expenditures	<u>94,901</u>
Total Expenditures - Modified Cash Basis	<u><u>\$ 5,456,544</u></u>
Total Other Financing Sources (Uses) - Budgetary Basis	\$ (1,555,763)
To Adjust For Transfers - Jail Fund	2,665,000
To Adjust For Transfers - Occupational Tax Fund	(2,015,319)
To Adjust For Transfers - Hospital Sinking Fund	39,859
To Adjust For Transfers - Park Fund	<u>15,603</u>
Total Other Financing Sources (Uses) - Modified Cash Basis	<u><u>\$ (850,620)</u></u>

KNOX COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2011
(Continued)

Note 2. Reconciliation of Required Supplementary Information to the Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)

General Fund

Total Beginning Fund Balance - Budgetary Basis	\$ 2,879,194
To Adjust For Jail Fund Beginning Balance	85,330
To Adjust For Occupational Tax Fund Beginning Balance	260,217
To Adjust For Hospital Sinking Fund Beginning Balance	296
To Adjust For Park Fund Beginning Balance	<u>119,032</u>
Total Beginning Fund Balance - Modified Cash Basis	<u><u>\$ 3,344,069</u></u>
 Total Ending Fund Balance - Budgetary Basis	 \$ 1,775,553
To Adjust For Jail Fund Ending Balance	687,205
To Adjust For Occupational Tax Fund Ending Balance	42,514
To Adjust For Hospital Sinking Fund Ending Balance	(19,229)
To Adjust For Park Fund Ending Balance	<u>180,394</u>
Total Ending Fund Balance - Modified Cash Basis	<u><u>\$ 2,666,437</u></u>

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**KNOX COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2011

KNOX COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2011

	Emergency 911 Fund	Federal Programs Fund	Public Properties Corporation Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 18,874	\$	\$ 6,553	\$ 25,427
Due From Other Funds		79,824		79,824
Total Assets	<u>18,874</u>	<u>79,824</u>	<u>6,553</u>	<u>105,251</u>
FUND BALANCES				
Restricted:				
Debt Service			6,553	6,553
Assigned:				
Protection to Persons and Property	18,874			18,874
General Health and Sanitation		79,824		79,824
Total Fund Balances	<u>\$ 18,874</u>	<u>\$ 79,824</u>	<u>\$ 6,553</u>	<u>\$ 105,251</u>

The accompanying notes are an integral part of the financial statements.

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KNOX COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2011

KNOX COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2011

	Emergency 911 Fund	Federal Programs Fund	County Attorney Drug Free Communities Fund
REVENUES			
Taxes	\$ 258,716	\$	\$
Intergovernmental		5,005	92,128
Miscellaneous	295		250
Interest	623		
Total Revenues	<u>259,634</u>	<u>5,005</u>	<u>92,378</u>
EXPENDITURES			
General Government			
Protection to Persons and Property	283,822		
General Health and Sanitation		1,184	
Social Services			77,606
Debt Service			
Capital Projects			
Administration	44,419		14,868
Total Expenditures	<u>328,241</u>	<u>1,184</u>	<u>92,474</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(68,607)</u>	<u>3,821</u>	<u>(96)</u>
Other Financing Sources (Uses)			
Transfers From Other Funds			
Total Other Financing Sources (Uses)			
Net Change in Fund Balances	(68,607)	3,821	(96)
Fund Balances - Beginning (Restated)	87,481	76,003	96
Fund Balances - Ending	<u>\$ 18,874</u>	<u>\$ 79,824</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2011
(Continued)

Union College Construction Fund	Public Properties Corporation Fund	Total Non-Major Governmental Funds
\$		\$ 258,716
75,000	43,345	215,478
25,000		25,545
	30	653
<u>100,000</u>	<u>43,375</u>	<u>500,392</u>
		283,822
		1,184
		77,606
	43,345	43,345
100,620		100,620
	567	59,854
<u>100,620</u>	<u>43,912</u>	<u>566,431</u>
<u>(620)</u>	<u>(537)</u>	<u>(66,039)</u>
<u>620</u>		<u>620</u>
<u>620</u>		<u>620</u>
	(537)	(65,419)
	7,090	170,670
<u>\$ 0</u>	<u>\$ 6,553</u>	<u>\$ 105,251</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



PEEROY AND GRAY, PSC

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The Honorable J.M Hall, Knox County Judge/Executive
Members of the Knox County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Knox County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated March 30, 2012. A qualified opinion was rendered on the governmental activities because the county excluded certain capital assets. Knox County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Knox County Fiscal Court is responsible for establishing and maintaining effective internal control over financing reporting. In planning and performing our audit, we considered the Knox County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Knox County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Knox County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as 2011-01, 2011-06, 2011-10, and 2011-12 in the accompanying comments and recommendations to be material weaknesses.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations as items 2011-02, 2011-03, 2011-07, 2011-08, 2011-14, 2011-15, 2011-19, and 2011-20 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Knox County's financial statements as of and for the year ended June 30, 2011, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendation as items 2011-01, 2011-04, 2011-05, 2011-09, 2011-11, 2011-12, 2011-13, 2011-16, 2011-17, 2011-18, 2011-19, 2011-20, and 2011-21.

The Knox County Judge/Executive's and the County Jailer's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Judge/Executive and County Jailer's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Peercy & Gray, PSC

Certified Public Accountants

March 30, 2012

**KNOX COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2011

**KNOX COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2011

FINANCIAL STATEMENT FINDINGS

2011-01 The Fiscal Court Should Have Re-Bid The Knox County Corbin Annex Project In Order For All Qualified Contractors To Have An Equal Chance Of Procuring The Contract

The Fiscal Court advertised for bids on a design-build project for construction of a pre-engineered metal building to house satellite facilities for the Knox County Government. The building is to include a business office for general government, ambulance service office, and garage. After advertising for bids on the project but prior to receiving bid packages from the vendors, the Fiscal Court issued a memorandum to all bidders removing section 3 – parking/drives and section 10 – electrical, from the original bid package. In accordance with the bid specifications, the Fiscal Court decided to remove these sections and use their own resources to complete them.

After receiving the bids from the vendors, the County Judge/Executive was summoned to appear at the Kentucky Labor Cabinet's Division of Employment Standards, Apprenticeship and Mediation (DESAM) to produce all records related to the design-build project. The DESAM informed the Fiscal Court the public construction project would be subject to Kentucky's prevailing wage law. The bid specifications supplied to the bidders specifically stated prevailing wages were excluded from the project. Therefore, the bids received were based upon inaccurate information. Also, the costs of the county performing section 3 and section 10 would increase as a result of having to pay prevailing wages to county employees so the County Judge decided to include the sections previously omitted as part of the project.

The original low bid submitted was \$222,351; however, the original scope of the project changed significantly as a result of the above changes and the project should have been re-bid. Rather than re-bidding the project, the county added \$113,756 to each bid to cover the additional costs for the prevailing wages. They also added \$37,069, \$93,241, and \$34,419, respectively, to each bid for materials, parking/drives, building, and electrical, enabling the original vendor to still be awarded the bid for an adjusted bid of \$500,836 as determined by the deputy county judge/executive. There was no supporting documentation in the county's files for how these additional amounts were derived. This method of adjusting the original bids for the additions to cover prevailing wages is not accurate since it assumes all contractors bid the same number of labor hours and the same rate of pay for each employee proposed to work on the project. The unsuccessful bidders could have already been paying higher wages to their employees resulting in their higher original bids and they could have been more competitive if the project had been re-bid.

On April 20, 2009, the contractor with the original low bid submitted a letter to the deputy judge/executive which outlined the total cost including prevailing wages for each section of the bid request. The total projected cost of the project was \$497,784. The Fiscal Court approved the bid at \$461,821, which is \$35,963 less. This amount was paid directly to the contractor by the Kentucky Department for Transportation for the parking/drives.

We reviewed the project in accordance with the original bid package/specifications since it was not re-bid and found there was no documentation maintained by the county to document the county had monitored the project for compliance with the bid specifications. In addition, the county did not monitor the contractor for compliance with the Kentucky prevailing wages, even though this resulted in the scope of the project changing from the original scope. Further review of the bid specifications indicated that only one building manufacturer was pre-approved and any others must submit design criteria and request written approval from the county and must have twenty (20) years experience in the manufacture of pre-engineered metals buildings. Additionally, all contractors were required to have at least twenty (20) years experience in the business of building pre-engineered metal buildings of similar size and complexity.

KNOX COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2011
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-01 The Fiscal Court Should Have Re-Bid The Knox County Corbin Annex Project In Order For All Qualified Contractors To Have An Equal Chance Of Procuring The Contract (Continued)

We recommend the Fiscal Court comply with KRS 424.260 and properly advertise, or re-advertise when required, for bids for all construction projects exceeding \$20,000 in accordance with the county's procurement policy. The county should refrain from adjusting previously submitted bids and re-bid the projects in order for all qualified contractors to have an equal chance of receiving contracts. In addition, bid specifications should not be written in order to limit a qualified contractor or vendor from receiving a contract. The county should monitor all construction projects for compliance with specifications and should require contractors to present documentation of compliance with prevailing wages when it's a condition of the project.

County Judge/Executive's Response: Carry over from 2010 Audit – Comment #2010-5.

2011-02 The County Should Improve Internal Controls Over The Road Department

During the course of auditing procedures it was noted that the County lacks controls in the road department. We recommend that the County consider some of the following suggestions to assist in establishing better oversight over the road department and activities thereof.

1. Develop work orders that originate from the office of the Judge for projects as they arise that has an approval signature from the J/E or designated person.
2. Road logs should be kept in all road vehicles that accounts for nearly every mile/hour the equipment is used that includes location, purpose, and be signed by the operator.
3. Gravel logs should be kept at the Road Department that has a description of the truck, operator, and location that the gravel is to be hauled. In addition, weight tickets for gravel being hauled to the road department should be signed and logged.
4. Monthly reports should be submitted to the Fiscal Court and documented in the minutes that describes at minimum the location and work performed during the month in detail.

We recommend that the County take steps in order to establish internal controls so that those charged with governance of the County are informed and can have better oversight over County Road Department operations.

County Judge/Executive's Response: Will be under review.

2011-03 The Treasurer Should Perform All Interfund Cash Transfers Approved Unless Prohibit By Law

During the testing of interfund transfers it was noted that the Fiscal Court approved a transfer of \$2,805 from the Federal Fund to the Local Government Economic Assistance Fund. However, this transfer was not performed.

We recommend that the Treasurer perform all transfers and approved by the Fiscal Court and permitted by law.

County Judge/Executive's Response: We agree.

KNOX COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2011
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-04 The County Should Not Use Restricted Funds For Purposes Non-Restricted

During the testing of interfund transfers it was noted that the Fiscal Court approved two transfers from the Federal Fund to the Hospital fund on May 25, 2011 and June 22, 2011 in the amounts of \$78,824 and \$1,000, respectively. A large portion of the funds were used to pay on hospital debt. The funds that originated from the Federal Fund appear to have belonged to the Road Fund as well as other restricted funds. The payment on the hospital debt with these types of funds is prohibited.

We recommend that the Federal Fund be reimbursed from General Fund monies and the resulting balance in the Federal Fund be reviewed to determine which funds that the money belongs and then transfer the monies to those respective funds. We further recommend that the County take precautions to ensure that restricted funds are not expended for reasons other than the purpose intended.

County Judge/Executive's Response: This will be reviewed and appropriate action taken.

2011-05 The Fiscal Court Should Properly Advertise For Bids On All Expenditures Over \$20,000

During our test of expenditures, we noted that Fiscal Court expended \$93,991 on road tile that was not included in the original request for bids. Though the vendor in which the materials were received was awarded the bid for the fiscal year, the County purchased road tile sizes that were not on the bid list. Also, it should be noted that no bids were received that had the sizes purchased by the County. KRS 424.260 states, "Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, other agreement for material, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids." In addition, in further reviewing road tile expenditures, it was found that the county paid in excess of the bids obtained in the amount of \$836.

Though the vendor utilized was the one that was awarded the bid for road tile, we recommend that if purchases are made that exceeds \$20,000 for materials not on the original bid list, the county should advertise for bids for such materials as needed. Furthermore, we recommend that the County review invoices for proper prices being charged and request a refund of the overages as needed.

County Judge/Executive's Response: We agree.

KNOX COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2011
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-06 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically

The County did not have a completed capital asset schedule for fiscal year ended June 30, 2011. A list of capital asset additions, retirements, and disposals were not properly maintained. The Knox County Hospital building and related property are not included on the capital asset listing because historical cost or estimated historical cost cannot be determined. A schedule of additions should be maintained as assets are purchased to simplify the process of updating the capital asset schedule. The schedule should include the date the asset is acquired, a description of the asset, the vendor name, and the amount. Invoices for asset acquisition and invoices for all other disbursements should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed by management and auditors. Furthermore, we believe the capital asset listing should be monitored and maintained on a regular basis. As new assets are acquired they should be added to the listing. As other assets are retired or disposed of, the assets should be removed from the listing.

Also, the failure to tag capital assets increases the risk of inaccurate reporting. Many capital assets have similar descriptions, and often serial numbers are difficult to locate or read during routine inspections. Therefore, the lack of unique tags for asset identification increase the risk of over/under reporting like assets.

We recommend the County maintain complete and accurate capital assets schedules and records to comply with GASB 34 requirements. The Fiscal Court should take a physical inventory of its capital assets on a regular basis to ensure that only active, in-service machinery and equipment is included on the County's financial statements. We also recommend the County implement policies that will identify and track additions, retirements, and disposed assets for the purpose of the capital asset schedule. These procedures will ensure that fixed assets are properly stated and that depreciation is being calculated accurately.

County Judge/Executive's Response: We agree and policies are being implemented.

2011-07 The County Did Not Follow Proper Purchase And Procurement Procedures

During our test of expenditures, we noted the following deficiencies:

- Of the two-hundred thirty six (158) invoices selected for testing, nine (9) invoices were not paid within thirty (30) days, one (1) invoice was faxed, one (1) invoice was emailed, sixteen (16) PO's were dated after the invoice, nine (9) were missing PO's, four (4) were missing invoices, one (1) was overpaid, and one (1) invoice was not properly cancelled.
- Expenditures from the road fund did not have signed delivery tickets to support the invoices.

KRS 65.140 requires any purchaser that receives goods or services to pay for those goods and services within thirty (30) working days of receipt of a vendor's invoice. Good internal controls dictate that adequate documentation be maintained to support all expenditures and signed delivery tickets be maintained to support the invoices. All original vendor invoices should be maintained including any supporting documentation which includes fuel receipts and road materials load or scale tickets.

Lack of proper accounting practices and internal control increase the risk that misstatements of financial activity and/or errors will occur and go undetected by the Fiscal Court. Without proper procedures in place to mitigate this risk, the Fiscal Court is exposing public resources to potential misstatements and/or errors. We recommend the Fiscal Court maintain all original vendor invoices including any supporting documentation, approve all expenditures by Fiscal Court, and pay all invoices within 30 days.

KNOX COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2011
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-07 The County Did Not Follow Proper Purchase And Procurement Procedures (Continued)

County Judge/Executive's Response: We agree.

2011-08 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Bond Fund And The Hospital General Obligation Refunding Bond Fund

Since the Fiscal Court is financially accountable and legally obligated for the debt of the Public Properties Corporation (PPC) and the Knox County Hospital Corporation (Hospital), these entities are reported as blended component units of the Fiscal Court. During our review of cash, we noted the Fiscal Court did not maintain ledgers for receipts and disbursements, did not prepare bank reconciliations, and did not prepare financial statements for fiscal year ended June 30, 2011 on the PPC's fund and the Hospital's General Obligation Refunding Bond Fund. In addition, multiple bank statements associated with Public Properties were missing.

We recommend that the Fiscal Court prepare and maintain ledgers for receipts and disbursements of the PPC Fund and the Hospital General Obligation Refunding Bond Fund. We also recommend that bank reconciliations be prepared monthly on all bank accounts. We further recommend the Fiscal Court or the boards of these entities prepare end of the year financial statements on the PPC Bond Fund and the Hospital General Obligation Refunding Bond Fund.

County Judge/Executive's Response: We agree.

2011-09 The County Should Comply And Ensure That The Same Level Of Health Insurance Benefits Are Provided To All County Employees As Stated In Kentucky Attorney General Opinion (OAG) 94-15

During the testing of payroll, auditors noted that county employees are not receiving the same level of health insurance benefits. Elected officials and one appointed employee are receiving county-paid family coverage while others are paying for the extra cost for family coverage. During fiscal year ended June 30, 2011, the County paid as much as \$655 per month per employee for the additional costs of the family plan over the single plan. The County's Administrative Code states the County promotes equal opportunity in matters of compensation and benefits. It further states the County pays for an individual's health insurance policy but does not add that certain individuals will receive the family benefit as well. In September 2006, the County amended and approved an Administrative Code in which a provision was added that states, "The County pays the premium for all individual health insurance policies offered by the county; except, however, the county will pay the premium for family health insurance plans for all elected county officials, senior executives and department heads as may be negotiated in their compensation package."

In June 2007, the County amended and approved an Administrative Code in which the above provision still remains. OAG 94-15 states, "the basic statute providing for governmentally funded health coverage (KRS 79.080) for public employees does not provide for one level of coverage for officers, and another level for employees. Accordingly, we believe such differing coverage would not be lawful as not authorized by statute." We recommend the Fiscal Court follow the advice as expressed in OAG 94-15 and ensure the same level of health insurance coverage for all employees.

County Judge/Executive's Response: According to our legal source the county employees are all equal and elected officials are equal.

KNOX COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2011
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-10 The County Should Accurately Report Debt On The Quarterly Financial Statements

During the audit it was found that the debt schedule presented with the 4th Quarter Report (which also serves as the year-end financial statement) inaccurately reported debt obligations. The report has a debt issue titled “Annex Series 1997” that was refinanced in February 2010 (Series 2010 Refunding Bonds) still showing on the June 30, 2011 financial statements. In addition, to the incorrect debt issue being shown, all of the other four debt issues shown have the incorrect principal balances. Furthermore, on April 14, 2010, the Knox County Fiscal Court entered into a commercial promissory note with Commercial Bank in the amount of up to \$300,000 for the operating costs of the Knox County Hospital that is not shown on the short-term debt schedule. Due to the above mentioned errors, long-term debt is overstated by \$496,946 and short-term debt is understated by \$300,000. An accurate debt schedule is necessary for both Department of Local Government reporting requirements and for that of the financial statements.

We recommend that the County ensure that the correct amounts are shown all financial statements presented to the public and the Department of Local Government. We further recommend that that County review all aspects of the Quarterly Reports before signing and submitting.

County Judge/Executive’s Response: We agree.

2011-11 The County Should Notify The State Local Debt Officer And Pay Off Short-Term Debt In Accordance With Kentucky Revised Statutes

On April 14, 2010, the Knox County Fiscal Court entered into a commercial promissory note with Commercial Bank in the amount of up to \$300,000 for the operating costs of the Knox County Hospital with an original maturity date of June 30, 2010. The debt was then renewed on June 30, 2011 with a new maturity date of June 30, 2011, and then renewed once again with a maturity date of June 30, 2012. The County did notify the State Local Debt Officer of the short-term borrowing, and failed to notify the State Local Debt Officer of renewals. KRS 65.117 states that, “no...county...shall enter into any financing obligation of any nature...without first notifying the state local debt officer in writing.” KRS 65.7707 also states, “notes payable shall mature...no later than the last day of the fiscal year in which the notes are issued.”

We recommend that the County notify the State Local Debt Officer of all debt applications and renewals. We further recommend that the County pay off all short-term agreements by the year-end of June 30.

County Judge/Executive’s Response: We agree.

KNOX COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2011
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-12 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll Processes

The Fiscal Court has a lack of segregation of duties over payroll processes. The Finance Officer performs the entire payroll function including, among other duties, preparing payroll records, preparing payroll checks, and posting payroll expenses. Payroll checks are signed by the Judge/Executive or Deputy Judge/Executive and the Treasurer. However, the checks are not agreed to the payroll ledgers by the check signers. No documented review or compensating controls exist over these areas.

Adequate segregation of duties would prevent the same person from having a significant role in the preparation of payroll. Lack of segregation of duties increases the Fiscal Court's risk of misappropriation of assets, errors, and inaccurate financial reporting. We recommend the Fiscal Court strengthen internal controls by segregating these duties. If segregation of duties is not possible, due to a limited number of staff, strong oversight should be implemented. The employee providing this oversight should document his or her review by initialing source documents.

County Judge/Executive's Response: Has been corrected.

2011-13 The Jailer Should Maintain Accurate Accounting Records And Prepare An Annual Report For The Jail Canteen Fund

During the testing of the Jail Canteen Fund, we noted the following deficiencies:

- Detailed disbursements ledgers were not maintained.
- Daily checkout sheets were not prepared and deposits were not made timely.
- Receipts and disbursements maintained in the computer system were not reconciled to the bank statements.
- The Jailer did not present an accurate and detailed financial statement to the Treasurer for fiscal year ended June 30, 2011 as required.

The Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual outlines the following minimum accounting and reporting requirements pursuant to KRS 68.210:

- Daily Checkout Sheet and Daily Deposits
- Receipts Journal
- Disbursements Journal
- Jail Commissary Summary and Reconciliation

Also KRS 441.135 (2) states, "The Jailer...shall annually report to the County Treasurer on the canteen account."

We recommend the Jailer comply with the above requirements by preparing accurate daily checkout sheets, reconciling the daily checkout sheets to daily deposits and receipts ledger, reconciling receipts and disbursements in the computer system to the bank statements, and preparing a detailed disbursements ledger. We also recommend the Jailer present a detailed yearly financial statement to the County Treasurer. This should include the beginning cash balance, summary of receipts and disbursements, and the reconciled year-end balance.

County Jailer's Response: We are in the process of correcting this issue.

KNOX COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2011
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-14 The Knox County Jail Lacks Adequate Segregation Of Duties Over Accounting Functions

As a result of our audit, we noted a lack of segregation of duties exists over the following accounting functions: receipts and disbursements processes, record-keeping, report preparation, and reconciliations. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions.

The Jailer's bookkeeper prepares and deposits the receipts, prepares and signs checks, posts to the ledger, prepares reports, and performs the bank reconciliations.

To adequately protect employees in the normal course of performing their assigned functions and to protect the Fiscal Court against inaccurate financial reporting, we recommend the Jailer separate the duties in preparing and depositing receipts, preparing and signing checks, recording transactions, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to a limited number of staff, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this.

County Jailer's Response: We will use other personnel to audit the reconciled "Monthly" Bank statements.

2011-15 The Fiscal Court Should Provide Adequate Oversight For Fuel Purchases Made With Credit Cards

During our review of expenditures, we noted several county departments used credit cards for fuel purchases. However, original invoices were not retained and compared to the monthly statements before payment was made. In addition, the odometer readings reported on the monthly statements appear to have been entered incorrectly. Without these original invoices and accurate odometer readings, the Fiscal Court cannot ensure the accuracy of the monthly statements or the reasonableness of fuel purchased for individual vehicles.

We recommend original invoices be retained for fuel purchases and these invoices be reconciled to the monthly billing statement prior to payment being made. In addition, we recommend controls be put in place to require that accurate odometer readings be used when fuel is purchased.

County Judge/Executive's Response: We agree.

2011-16 Purchase Orders Should Be Properly Prepared And Approved Prior To Making Purchases

During our review of internal controls, we noted purchase orders were not always prepared before the actual purchase date and did not contain pertinent information such as description, account number, purchase amount, and date. Per the Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual, purchases shall not be made prior to approval by the County Judge/Executive (or designee) or department head. Also, purchase requests shall indicate proper appropriation account number to which the claim will be posted. We recommend an approved purchase requisition and purchase order be obtained prior to items being ordered or services received to determine if adequate funds and budget appropriations are available for the purchase. We also recommend purchase orders include all the necessary information such as date, description, appropriation account number, and signature of approval.

County Judge/Executive's Response: We agree.

KNOX COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2011
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-17 Magistrates Should Not Receive A Lump Sum Expense Allowance

During our audit, we noted magistrates were receiving an expense allowance as part of their monthly compensation; however, no documentation was being provided for actual expenses incurred. KRS 64.710 prohibits public officials from receiving a lump sum expense allowance. KRS 64.530(6) establishes \$300 per month as a permissible expense allowance for magistrates serving on committees of the Fiscal Court. Per the County Judge/Executive, magistrates work on road committees; however, there is no documentation of these committee meetings.

We recommend magistrates receive a monthly expense allowance only if serving on working committees or if adequate documentation for actual expenses incurred is provided. These committees should meet once a month and be reported in the Fiscal Court meetings.

County Judge/Executive's Response: We agree.

2011-18 The County Should Ensure That Financial Disclosure Statements Be Submitted To The Ethics Board As Required By The Code Of Ethics

During the review of financial disclosures, it was found that numerous people failed to submit financial disclosures as required by the County's Code of Ethics. The failure to comply with the Code of Ethics included the following positions: Magistrates, Road Supervisor/Forman, E911 Director, Emergency Services Director, Coroner, Solid Waste Coordinator, and Jailer. The Code of Ethics requires that all elected officials, candidates for elected offices, commission or board approved/appointed by Fiscal Court that receive compensation, chief deputies, department heads, and Deputy Judge/Executive submit financial disclosures 21 days after filing for election (during election year) or by March 1st of each year.

We recommend that those required to file financial disclosures do so. We further recommend that the County monitor whether these disclosures be filed.

County Judge/Executive's Response: We have notified all positions.

2011-19 The Fiscal Court Should Require Monthly Payments To The Jail Fund For Inmate Fees

The Fiscal Court allows the jail to keep the booking fees collected to purchase supplies and other items for the jail. Since the County Treasurer did not receive any booking fees, receipts of the Jail Fund were understated on the county's financial statements for the fiscal year ended June 30, 2011. KRS 441.265 allows for the collections of these reimbursement fees and section (4) states, "any fees or reimbursement received under this section shall be forwarded to the county treasurer for placement in the jail's budget." KRS 68.210 prescribes minimum accounting requirements, which include a monthly report by the Treasurer that includes all receipts collected for the county.

We recommend the Fiscal Court require monthly payments to the Jail Fund for inmate fees to be in compliance with KRS 441.265 and 68.210.

County Judge/Executive's Response: No Response.

County Jailer's Response: We have been writing these checks monthly since auditor told us it needed to be done.

KNOX COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2011
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-20 All Jail Expenditures Should Be Budgeted

During the fiscal year ended June 30, 2011, the Jailer made purchases totaling \$33,236 for supplies and equipment for the jail. The jail paid the vendors directly from a jail operating account and therefore, these were not included as expenditures on the county's financial statements. In addition, we could find no indication the expenditures were presented to the Fiscal Court for approval prior to payment.

KRS 441.225 states, "(1) Except for capital improvements, utilities and building insurance and except as provided in subsection (2) of this section, the jailer shall have authority to authorize expenditures from the jail budget. Such expenditures shall only be made in accordance with the line item jail budget duly adopted or amended by the Fiscal Court and the established county procurement code or purchase order procedure of the county. Payment for purchases for the jail shall be subject to Fiscal Court approval prior to payment. The Fiscal Court shall not withhold approval of payment for jail expenditures, which are within the jail budget and not unlawful."

We recommend all jail expenditures be amended as necessary into the county's budget. Invoices should be presented to the Fiscal Court for review prior to payment and approved payments should be recorded in the county's appropriation ledger as budgeted expenditures.

County Judge/Executive's Response: No Response.

County Jailer's Response: We have corrected this with purchase order numbers from the Fiscal Court.

2011-21 The Jailer Should Collect Sales Tax On Prepaid Phone Cards Sold And Remit Collections To The Jail Canteen Fund

During test of Jail Canteen expenditures, we noted prepaid phone card monies collected were deposited to the jail operating account and then were submitted to the county treasurer who deposited them into the county's Jail Fund. Per KRS 441.135 (2), "All profits from the canteen shall be used for the benefit and to enhance the well-being of the prisoners". Since phone cards are sold to inmates for their personal use, these monies should be transferred to the Jail Canteen fund.

We also noted the Jailer did not collect or remit sales tax to the Kentucky Department of Revenue on the sale of prepaid telephone cards. KRS 139.200 states: "A tax is hereby imposed upon all retailers at the rate of six percent (6%) of the gross receipts derived from: (1) Retail sales of: (a) Tangible personal property, regardless of the method of delivery, made within this Commonwealth" which includes "(d) Prepaid calling service". The Kentucky Department of Revenue has ruled that this tax is applicable to commissary sales.

We recommend the Jailer transfer the sale of phone cards to the Jail Canteen fund for the benefit or recreation of the prisoners. We also recommend the Jailer collect sales tax on prepaid phone cards sold to inmates and properly submit the taxes to the Kentucky Department of Revenue as prescribed by KRS 139.550.

County Jailer's Response: We are currently paying taxes on cards sold in Canteen. Will check our machine sold cards.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

KNOX COUNTY FISCAL COURT

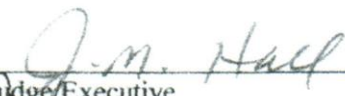
**For The Fiscal Year Ended
June 30, 2011**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
AND DEVELOPMENT PROGRAMS

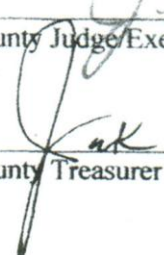
KNOX COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2011

The Knox County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Development Programs was expended for the purposes intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

